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STATE FOR WHA/CAR (JTILGHMAN)  
WHA/EPSC (VDEPIRRO)  
TREASURY FOR SARA GRAY

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SUBJECT: JAMAICA'S BOOMING REAL ESTATE MARKET

REF: KINGSTON 098, KINGSTON 05

SUMMARY

**¶1.** (SBU) Jamaica is undergoing a historic real estate boom, with five straight years of price increases in real terms. Prices in the residential sector jumped by more than 20 percent in the last year, and show no immediate signs of abating. Resort properties, which have become the most dynamic segment of the market, have seen prices double in the last year as Jamaica reclaims its status as a playground for the rich and famous. Although prices continue to climb, they still remain some of the lowest in the Caribbean, suggesting there is still room for additional upward movement. Despite soaring prices, demand continues to be vibrant because of limited supply, particularly in middle income residential developments. Surprisingly, this robust growth has occurred against the background of bureaucratic red tape, increasing crime, high inflation and rising interest rates. Increasing infrastructure investment, the possibility of casinos coming to the island, and large scale investments in luxury housing developments by private equity funds could continue to fuel a strong sector in the coming years. End summary.

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Jamaica's Sellers' Market  
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**¶2.** (SBU) Jamaica's real estate market is experiencing a momentum not seen since independence, with significant price increases in real terms for the last five years. Prices in the residential sector have risen by over 20 percent in 2007 with no indication of slowing. Real estate activity in the resort and luxury home sectors has been even more robust as prices of some units have doubled over the same period. Jamaica's demand driven 'sellers market' has spilled over into 2008, with demand for properties remaining strong and re-sales attracting multiple offers. Each of the 28 unit complex of 5,000 square foot homes in an upscale area of Kinston is pre-selling for USD 950,000. The builder expects prices to reach USD 1.2 million by the time the complex is completed in October 2009. Even more impressive is the fact that most new developments are being pre-sold well before construction begins. According to Andrew Issa, a broker with U.S. Realtor franchise Coldwell Banker, many high end residential properties are fetching up to USD 1 million, while land being sought by developers is averaging more than USD 1 million per acre in Kingston.

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What is Driving Prices?  
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**¶3.** (SBU) The local real estate market is buoyed by ever rising

demand amidst low inventory and insufficient housing starts. Compounding this problem is the fact that land suitable for development in Kingston is limited. Those who own undeveloped land are reluctant to let it go since replacement land is difficult to find. Issa said the biggest challenge he faces as a realtor is the unavailability of inventory for his clients. The market is benefiting from increased access to credit from financial institutions, with the quasi-government National Housing Trust (NHT) raising its loan limit for joint applicants (any relationship, but usually married couples or family members) to USD 100,000, while reducing loan rates to as low as 2 percent depending on an applicant's income levels. Demand, and by extension prices, also have been buoyed by declining front end cost, as applicants can put less down and secure a mortgage for up to 95 percent of the purchase price. Although prices are soaring for resort properties, they remain up to 30 percent below similar properties in the rest of the Caribbean, suggesting that crime is making resort properties in Jamaica a bargain.

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What Does This Mean?  
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**¶14.** (SBU) Rising prices have had the effect of skewing residential construction toward units for the upper income brackets. House prices in Kingston are starting to exceed the reach of the average Jamaican; some developers have been forced to look outside the Kingston Metropolitan Area (KMA) for land to satisfy demand from middle and low income earners. Issa said these segments of the market are so under serviced that when developers do provide units for this market they do not even need realtors to sell. To satisfy this market over nine developments have been completed in nearby St. Catherine in the last ten years. This build out has been facilitated by the construction of two major highways, which make these developments attractive to prospective buyers who now find it easy to commute to and from the KMA. The major drawback is that it magnifies the already chronic traffic congestion in the KMA. The NHT also has increased its activity in this segment of the market by purchasing lots and subdividing and constructing modest starter homes. The GOJ also has been entering into joint venture partnership with private sector developers to provide housing units in the USD 55,000 to USD 110,000 price range.

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Demand In Middle and High End Sectors  
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**¶15.** (SBU) Although demand for properties has grown in all segments of the market, most demand is concentrated in the middle segment of the market in a price range from USD 110,000 to USD 350,000. The average selling price for residential properties rose from USD 85,000 in 2006 to USD 170,000 in 2007. In a meeting with Emboffs, Reynold Scott, whose company GEON builds homes for the high end market, said that "the cost of land to house the middle of the market is just too expensive in the KMA." Scott added that the NHT only provides a maximum of USD 100,000 for joint applicants. This is not enough funding to purchase a home which leaves a majority of professionals to rent or purchase small apartments in the KMA which are not large enough for a family. Scott added that demand for high end residential properties remains strong, driven by business executives, business owners, and retirees. Scott said most of his clients demand gated communities to insulate themselves from high crime, while some buy for rental income, which can reach up to ten percent returns in USD plus capital gains.

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Commercial Real Estate  
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**¶16.** (SBU) While residential real estate is experiencing a boom, commercial real estate construction remains slow, as rents for this sector have not recovered from the financial sector crisis of the 1990s. However, some new projects are starting to emerge. Life of Jamaica (LOJ), a major insurance company which suffered from overexposure to commercial real estate in the 1990s, is starting to reinvest. The LOJ recently completed a large business complex, consisting of small offices, which sold out. Cecile Diston of LOJ told emboffs that this is a clear indication that demand exists for

the purchase of small offices space. Another of Jamaica's large commercial real estate developers, PANJAM, also has confirmed reports it is seeking land in Kingston to construct a four star hotel to cater to business travelers. CEO Stephen Facey said the company also is looking at other real estate ventures, but is being hampered by rising land prices. "Real estate prices have skyrocketed on speculation" added Facey.

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Challenges Still Remain  
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**¶17.** (SBU) Despite growth in the real estate sector, many challenges still remain. The cost of transferring property is between 12 and 14 percent, composed of transfer taxes and lawyers fees. Slow attorneys and bureaucratic red tape make the transfer of property tedious, taking up to six months to a year to complete. Approval for large commercial projects can require the approval of as many as 28 government offices which can take from six months to as long as five years. A vast amount of land is unusable due to the lack of clear title or proximity to high crime areas. Issa and Diston are also nervous about the possible collapse of some of the burgeoning alternative investment schemes (reflets). Both believe the schemes are the single biggest threat to the market, as any fall out could lead to voluntary and involuntary liquidations increasing the supply side and shaking investor confidence. Scott, a Harvard trained MBA, told emboffs that the absence of structured data on the sector was one of the biggest problems impacting his ability to plan. He has had to resort to indicators such as cement and electricity usage and mortgage growth in an attempt to predict demand.

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But Rich and Famous Return  
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**¶18.** (SBU) But even as the challenges mount, Jamaica has continued to re-emerge as a strong player in the high end real estate market, a position it had held years ago. Recognizing the growing importance of this market, billionaire investors led by Michael Lee Chin (AIC Limited and National Commercial Bank of Jamaica), Chris Blackwell (Island Records) and Joe Lewis (Tavistock) are all in the process of investing huge sums in high end properties such as Trident, Golden Eye, and Harmony Cove, respectively. The Harmony Cover project covers 2,000 acres and will consist of USD 1 to 3 million villas surrounded by a yacht club, high end golf courses, and retail complexes. American investor Michelle Rollins is marketing Palmyra, luxury beach front condos, and a hotel at Rose Hall. The entire north coast and in particular Montego Bay and its environs, where most resort developments are taking place, have exploded with a development momentum never seen before in Jamaica. Construction of more than 7,000 new hotel rooms is underway on the north coast. As an indication of the upswing, land in the area is fetching up to USD 600,000 per acre. The villa market also is making a strong comeback, with the north coast now dubbed the 'billionaire strip'. This recent explosion has been largely underpinned by soaring demand for second and third homes for high net worth individuals. Vacation and investment properties are springing up to take advantage of Jamaica's strong brand appeal underlined by its reggae music, natural beauty, excellent beaches, and hospitable people.

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Comment  
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**¶19.** (SBU) Strong demand amid low inventory could continue for the foreseeable future, allowing sellers to continue exerting influence over prices. The expansion of the Montego Bay airport also should continue to make the north coast attractive to prospective buyers. Demand could be further buoyed if the GOJ keeps its promises to improve the infrastructure and focus government spending on pro-business initiatives. The unspoiled eastern end of the island also remains a great investment opportunity. To increase the number of foreign buyers, the GOJ needs to reduce property transfer taxes, improve clarity of title, and consolidate the development approval process. Given the rapid pace of construction the GOJ also will need to address rising environmental concerns with inadequate waster

and sewer infrastructure. Jamaica's risk adverse mortgage market coupled with a general lack of housing supply has reduced the likelihood of loans going to those who lack the capacity to pay if prices should decline in the near term. Thus, a housing bubble as seen the U.S. housing sector with sub prime lending is not as likely in Jamaica. The moribund commercial real estate market also could see renewed growth if the GOJ makes good on its promise to redevelop the long abandoned but attractive waterfront in downtown Kingston. Indications are that this could become a reality, as the GOJ has put a stop order on the movement of government agencies located in the area, while convincing some foreign missions without permanent homes to relocate to the area. Against this background, it is hard to argue with realtors who suggest that the time to buy is now, despite record prices. END COMMENT.

JOHNSON